## **Sales Tax Index – Exemptions**

**Question:** What is required from a vendor when a customer purchases tangible personal property and claims that it is exempt from sales tax?

Answer: The vendor must make a reasonable effort to ensure that the purchase qualifies for a sales tax exemption. For some sales such as items for resale or sales to charitable organizations, there are requirements in place to document that a valid sales tax license or exempt certificate exists along with the reasonability test. A form is required for the sales tax exemption on the purchase of manufacturing equipment (DR 1191) or farm equipment (DR 0511) that must be submitted by the purchaser.

Some other exemptions do not have a specific requirement on what the purchaser must present to the vendor in order to purchase the item tax free. In these cases it is up to the vendor to be able to demonstrate that reasonable precautions were taken to ensure that the purchase was tax exempt. This may include, but is not limited to, obtaining a letter/affidavit from the purchaser detailing the reason for the exemption, verification that the exemption is supported by state law, ensuring that the probable use of the purchased item will be used as required for the exemption to apply.

For example, the sale of fertilizer to a farming operation can reasonably be accepted as qualifying under the agricultural compounds exemption when accompanied by a letter from the purchaser that the fertilizer will be used to grow agricultural commodities. However, the sale of a single bag of fertilizer to an individual who has an address in the city, even when a letter is presented by the purchaser that the fertilizer will be used on a farm, would not be a reasonable tax exempt sale. When in doubt, the vendor should collect the sales tax and have the purchaser file a claim for refund with the Department of Revenue to claim the tax exempt sale.